

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

THE APPLICATION OF JOANN ESTATES)
UTILITIES, INC., McCRACKEN COUNTY,))
KENTUCKY, FOR AN ORDER ISSUING A)
CERTIFICATE OF PUBLIC CONVENIENCE) CASE NO. 8305
AND NECESSITY AND ALSO AN ORDER)
APPROVING THE SCHEDULE OF RATES)
TO BE EXACTED FOR SEWER SERVICE)

O R D E R

Joann Estates Utilities, Inc., ("Joann") filed its application on August 5, 1981, for a certificate of public convenience and necessity authorizing the construction of a new waste water treatment plant and collection system in Wilmington-Chiles Estates and approval of proposed initial rates.

A hearing was held on October 27, 1981, in the offices of the Public Service Commission in Frankfort, Kentucky. At the hearing certain requests for additional information were made. This information has been filed, and the entire matter is now submitted for final determination by the Commission.

TEST PERIOD

This is a proposed rather than an operating utility, and test-year information does not exist. Estimated pro forma expenses were utilized for the determination of revenue requirements.

PROJECTED REVENUES AND EXPENSES

Joann projected operating expenses based on providing service to approximately nine residential customers. The Commission is of the opinion that the projected levels of operating expenses generally are proper and have, therefore, been accepted with the following exception:

Joann proposed a reserve fund for the replacement of major equipment items with anticipated useful lives of 10 years or less. The Commission is of the opinion that this is in fact a depreciation expense. Joann testified that the entire cost of the sewer system will be recouped through the sale of lots. The Commission views depreciation for rate-making purposes as a means to recoup the investment in the utility plant in service, not to fund future investment. Since Joann will recoup the investment in the utility plant through the sale of lots, the Commission has disallowed the inclusion of the reserve fund in its operating expenses for rate-making purposes.

VALUATION METHOD

The Commission has found that Joann's investment records contain insufficient detail to provide the information necessary to determine the net investment or capitalization of Joann for rate-making purposes. Therefore, the Commission is of the opinion that the operating ratio method should be utilized in this instance.

The formula used in computing the operating ratio is as follows:

$$\text{Operating Ratio} = \frac{\text{Operating Expenses} + (\text{Net of Interest Expense}) + \text{Depreciation} + \text{Taxes}}{\text{Gross Revenue}}$$

FINDINGS AND ORDERS

Based on the evidence of record, the Commission finds that:

1. Public convenience and necessity require that the construction proposed in the application be performed, and that a certificate of convenience and necessity be granted.

2. The construction project proposed by Joann consists of a sewage collection system, a 20,000 GPD sewage treatment plant with secondary treatment by the extended aeration process and tertiary facilities, at an estimated total project cost of \$199,315, and will provide sewer service for a proposed subdivision consisting of 50 single-family residential units.

3. The estimated total cost of \$199,315 for the sewage collection and treatment system will be recouped by Joann when all 50 lots of the development have been sold.

4. The proper method to determine revenue requirements in this instance is the operating ratio method.

5. The proposed initial rate is inadequate to produce the required revenue to meet Joann's operating expenses.

6. Developers should request initial rates which are adequate and which allow the utility to at least meet its anticipated operating expenses. Inadequate rates result in higher operating expenses because of the utility's continuing need for increased rates. They are also unfair to consumers who purchase lots expecting to pay the lower rates.

7. Joann Estates represented to the Commission that it will subsidize any deficits caused by an excess of expenses over income until the subdivision has 50 customers on line. The granting of a certificate of convenience and necessity and approval of the rates requested is conditioned on the performance by Joann Estates of such undertaking, and on full written disclosure to purchasers of property in the subdivision, until there are 50 customers, that rates may not reflect all the costs of operation of the treatment system. The disclosure should be in substantially the following form:

The current rate for sewer treatment services for the subdivision is not sufficient to cover operating expenses without a subsidy from the developer. If development does not continue as anticipated, your sewer rates may increase substantially.

8. The rate in Appendix A, attached hereto and made a part hereof, should produce gross annual revenues of \$5,100 from 50 customers and is the fair, just and reasonable rate to be charged for sewage services rendered by Joann.

9. An operating ratio of approximately 0.88 will result from the estimated revenues produced by the fully-developed subdivision and should provide a reasonable return margin.⁽¹⁾

10. Gross annual revenues of \$5,100 are necessary and will permit Joann to meet its reasonable projected operating expenses and to accumulate a reasonable return for equity growth.

(1) Return Margin is the amount remaining for the payment of a return on the investment of the security holders,

11. Joann has filed a valid third party beneficiary agreement as a part of its application.

12. Within 60 days of the date that construction is substantially completed Joann should provide duly verified documentation of the total cost of this project including the cost of construction and all other capitalized costs (engineering, legal, administrative, etc.).

13. Within 60 days of the date that construction is substantially completed Joann should require the engineer to furnish this Commission with a copy of the as built plans and a certification that construction has been satisfactorily completed in accordance with the contract plans and specifications.

14. Joann should file with this Commission all contracts subject to the Commission's approval.

IT IS THEREFORE ORDERED that Joann be and it hereby is granted a certificate of public convenience and necessity to proceed with the construction in the application and record.

IT IS FURTHER ORDERED that the rate in Appendix A, attached hereto and made a part hereof, is hereby fixed as the fair, just and reasonable rate of Joann, to become effective for service rendered on and after the date of this Order.

IT IS FURTHER ORDERED that Joann shall file with this Commission within 30 days of completion of the proposed construction, its tariff sheets setting forth the rate approved herein and all rules and regulations of the utility.

IT IS FURTHER ORDERED that within 60 days of the date that construction is substantially completed Joann shall provide this Commission with duly verified documentation of the total cost of this project including cost of construction and all other capitalized costs (engineering, legal, administrative, etc.)

IT IS FURTHER ORDERED that within 60 days of the date construction is substantially completed, Joann shall furnish this Commission with a copy of the as built plans and a certification that construction has been satisfactorily completed in accordance with the contract plans and specifications.

IT IS FURTHER ORDERED that Joann shall file with this Commission all contracts for services subject to the Commission's approval.

Done at Frankfort, Kentucky, this 18th day of December, 1981.

PUBLIC SERVICE COMMISSION

Marlin M. Voh
Chairman

Katharine Randall
Vice Chairman

Don Caruga
Commissioner

ATTEST:

Secretary

APPENDIX A

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE
COMMISSION IN CASE NO. 8305 DATED DECEMBER 18, 1981

The following rate is prescribed for sewage disposal services rendered to all residential customers served by Joann Estates Utilities, Incorporated, in Wilmington-Chiles Estates Subdivision in McCracken County, Kentucky:

<u>Type of Service Provided</u>	<u>Monthly Rate</u>
Single-Family Residential	\$ 8.50 per Residence